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November 19, 2012

**VIA ELECTRONIC FILING**

Jocelyn Boyd, Esquire  
Chief Clerk and Administrator  
South Carolina Public Service Commission  
101 Executive Center Drive  
Columbia, SC 29210

RE: Application of Tega Cay Water Service, Inc. for Adjustment of Rates and Charges and  
Modifications of Certain Terms and Conditions for the Provision of Water and Sewer  
Service  
Docket No. 2012-177-WS

Dear Ms. Boyd:

Enclosed please find for filing the prefiled **Direct Testimony of Pauline M. Ahern together with Exhibit and prefiled Direct Testimony of Dylan W. D'Ascendis together with an Appendix and Exhibit** on behalf of Tega Cay Water Service, Inc. in the above referenced docket. By copy of this letter, I am serving all parties of record.

If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me.

Sincerely,

Elliott & Elliott, P.A.

Scott Elliott

SE/mjl

Enclosure

cc: All parties of record w/enc.

## CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that she has served below listed parties with a copy of the pleading(s) indicated below by mailing a copy of same to them in the United States mail, by regular mail, with sufficient postage affixed thereto and return address clearly marked on the date indicated below:

RE: Application of Tega Cay Water Service, Inc. for  
Adjustment of Rates and Charges and Modifications to  
Certain Terms and Conditions for the Provision of Water  
and Sewer Service

Docket No. 2012-177-WS


PARTIES SERVED:

Jeffrey M. Nelson, Esquire  
Shannon B. Hudson, Esquire  
Office of Regulatory Staff  
1401 Main Street, Suite 900  
Columbia, SC 29201

PLEADING:

Direct Prefiled Testimony of Pauline M. Ahern with  
Exhibit  
Direct Prefiled Testimony of Dylan W. D'Ascendis with  
Appendix and Exhibit

November 19, 2012

  
\_\_\_\_\_  
MaryJo Lawracy  
Legal Assistant

Tega Cay Water Services, Inc.  
Cause No. \_\_\_\_\_

BEFORE THE  
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

PREPARED DIRECT TESTIMONY

OF

DYLAN W. D'ASCENDIS, CRRA  
ASSOCIATE  
AUS CONSULTANTS

ON BEHALF OF

TEGA CAY WATER SERVICES, INC.

NOVEMBER 2012

## TABLE OF CONTENTS

	<u>Page No.</u>
Introduction .....	1
Summary .....	3
Reasonableness of Using Utilities, Inc.'s Consolidated Capital Structure and Long-Term Debt Cost Rate for Ratemaking Purposes for Tega Cay Water Service, Inc. ....	3
Appendix A – Professional Qualifications of Dylan W. D’Ascendis	

1 **Introduction**

2 **Q. Please state your name, occupation and business address.**

3 A. My name is Dylan W. D'Ascendis and I am an Associate of AUS  
4 Consultants. My business address is 155 Gaither Drive, Suite A, Mount  
5 Laurel, New Jersey 08054.

6 **Q. Please summarize your educational background and professional**  
7 **experience.**

8 A. I graduated from the University of Pennsylvania in 2003, where I received  
9 a Bachelor of Arts degree in history with a concentration in economic  
10 history. In 2008, I received a Master of Business Administration cum  
11 laude from Rutgers University, concentrating in finance and international  
12 business and also participated in an independent study program  
13 dedicated to utility ratemaking.

14 In 2008, I joined AUS Consultants as an Associate. I assist in the  
15 preparation of all fair rate of return studies including capital structure  
16 determination, development of senior capital cost rates, as well as the  
17 determination of an appropriate rate of return on common equity capital. I  
18 assist the firm's Principals in the preparation of interrogatory responses  
19 and in the evaluation of opposition testimony in order to assist in the  
20 preparation of interrogatories and suggested areas of cross-examination  
21 directed to opposing witnesses. In addition, I assist in the preparation of  
22 rebuttal testimony to opposing witnesses as well as the supporting  
23 exhibits. Since joining AUS, I have served over seventy-five clients with

1 operations located in twenty-eight jurisdictions including the Public Service  
2 Commission of South Carolina (PSC SC) and the Federal Energy  
3 Regulatory Commission (FERC). A representative list of these clients is  
4 contained in Appendix A.

5 I serve as Editor of AUS Monthly Utility Reports, an AUS  
6 Consultants' publication, which covers publicly-traded electric, gas, and  
7 water companies that provide comprehensive information on key financial  
8 ratios and industry rankings. I oversee the data collection efforts as well  
9 as the distribution, marketing, and billing of the report.

10 I assist in the calculation and maintenance of the American Gas  
11 Association (A.G.A.) Index under contract with the A.G.A., which serves  
12 as the benchmark against which the performance of the American Gas  
13 Index Fund (AGIF) is measured. Both indices are market capitalization  
14 weighted indices based upon the common stocks of the publicly-traded  
15 corporate members of the A.G.A.

16 I have been involved as a research assistant on an article co-  
17 authored by Pauline M. Ahern, Frank J. Hanley, and Richard A.  
18 Michelfelder, Ph.D. entitled "New Approach to Estimating the Equity Risk  
19 Premium for Public Utilities" which is forthcoming in The Journal of  
20 Regulatory Economics.

21 I am a member of the Society of Utility and Regulatory Financial  
22 Analysts (SURFA). In May, 2011, I earned the professional designation  
23 "Certified Rate of Return Analyst" (CRRRA) from SURFA. This designation

1 is based upon education, experience and the successful completion of a  
2 comprehensive written examination.

3 **Summary**

4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to support the reasonableness of Utilities,  
6 Inc.'s (UI or the Parent) capital structure and related long-term debt cost  
7 rate at December 31, 2011 for ratemaking purposes for Tega Cay Water  
8 Services, Inc. (Tega Cay or the Company) in the instant docket.

9 **Q. Have you prepared an exhibit which supports your**  
10 **recommendation?**

11 A. Yes. My testimony is supported by Exhibit DWD-1, consisting of  
12 Schedules 1 and 2.

13 **Reasonableness of Using Utilities, Inc.'s Consolidated Capital Structure**  
14 **and Long-Term Debt Cost Rate for Ratemaking Purposes for Tega Cay**  
15 **Water Services, Inc.**  
16

17 **Q. What capital structure ratios and long-term debt cost rate do you**  
18 **recommend be employed in developing an overall fair rate of return**  
19 **appropriate for the Company?**

20 A. I recommend that the actual consolidated capital structure ratios and  
21 embedded long-term debt cost rate of Utilities, Inc. (UI or the Parent) at  
22 December 31, 2011 be adopted for ratemaking purposes in developing an  
23 overall rate of return applicable to the Company. These ratios and  
24 corresponding cost rates are shown on Schedule 1 and consist of 50.25%  
25 long-term debt at an embedded cost rate of 6.60% and 49.75% common

1 equity with a range of cost rates between 10.80% and 11.30%. The  
2 common equity cost rate is sponsored by Company Witness Pauline M.  
3 Ahern.

4 **Q. Is the consolidated Parent actual capital structure ratios at**  
5 **December 31, 2011 appropriate for use in a cost of capital**  
6 **determination?**

7 A. Yes. The Company's current capital structure contains 100% common  
8 equity and is not appropriate for ratemaking purposes. Use of a common  
9 equity ratio of 100% would result in an unreasonably high revenue cost of  
10 capital because there would be no income tax shield resulting from  
11 interest expense deduction. The consolidated Parent capital structure  
12 ratios at December 31, 2011 is reasonable to use for the Company  
13 because it is consistent with the average capital structure maintained on  
14 average by the proxy group of water companies used by Ms. Ahern to  
15 develop her recommended common equity cost rate.

16 **Q. How does the Parent's consolidated common equity ratio of 49.75%**  
17 **at December 31, 2011, compare with the total equity ratios**  
18 **maintained on average by the companies in Ms. Ahern's proxy**  
19 **group?**

20 A. The Parent's consolidated common equity ratio of 49.75% at December  
21 31, 2011 is similar to the total equity ratios maintained on average by the  
22 companies in the proxy group of nine AUS Utility Reports water  
23 companies upon whose market data Ms. Ahern bases her recommended



1 range of common equity cost rates. The total equity ratios of the nine  
2 water companies averaged 49.13% for the year 2011, as shown on  
3 Schedule 2.

4 **Q. Is the actual Parent long-term debt cost rate of 6.60% an appropriate**  
5 **long-term debt cost rate for Tega Cay for ratemaking purposes?**

6 A. Yes. The long-term debt cost rate is the actual embedded cost rate for  
7 the Parent, and since the capital structure of the Parent is appropriate for  
8 ratemaking purposes, the cost associated with the debt is appropriate for  
9 ratemaking purposes as well.

10 **Q. What is your conclusion regarding the Company's ratemaking capital**  
11 **structure and related ratios and long-term debt cost rate?**

12 A. In view of the foregoing, it is my opinion that a capital structure based  
13 upon the Parent's consolidated capital structure ratios at December 31,  
14 2011 of 50.25% long-term debt and 49.75% common equity are very  
15 similar to the capital structure ratios maintained on average by Ms.  
16 Ahern's proxy companies. Thus, the consolidated capital structure ratios  
17 and long-term debt cost rate of the Parent are reasonable to use for  
18 ratemaking purposes in calculating the overall cost of capital for Tega  
19 Cay.

20 **Q. Does that conclude your direct testimony?**

21 A. Yes.

APPENDIX A

PROFESSIONAL QUALIFICATIONS

OF

DYLAN W. D'ASCENDIS, CRRA  
ASSOCIATE  
AUS CONSULTANTS

PROFESSIONAL QUALIFICATIONS  
OF  
DYLAN W. D'ASCENDIS, CRRA  
ASSOCIATE  
AUS CONSULTANTS

PROFESSIONAL EXPERIENCE

2008-Present

I joined AUS Consultants in 2008 as an Associate. I prepare fair rate of return and cost of capital exhibits which are filed along with expert testimony before various state and federal public utility regulatory bodies. These supporting exhibits include the determination of an appropriate ratemaking capital structure and the development of embedded cost rates of senior capital. The exhibits also support the determination of a recommended return on common equity through the use of various market models, such as, but not limited to, Discounted Cash Flow analysis, Capital Asset Pricing Model and Risk Premium Methodology, as well as an assessment of the risk characteristics of the client utility. I also assist in the preparation of responses to interrogatories received regarding such testimonies filed on behalf of client utilities. Following the filing of fair rate of return testimonies, I assist in the evaluation of opposition testimony in order to prepare interrogatory questions, areas of cross-examination, and rebuttal testimony. I also evaluate and assist in the preparation of briefs and exceptions following the hearing process.

I also evaluate the final orders and decisions of various commissions to determine whether further actions are warranted and to gain insight which may assist in the preparation of future rate of return studies.

In April 2011, I earned the Certified Rate of Return Analyst (CRRA) designation from the Society of Utility and Regulatory Financial Analysts (SURFA). This is based upon education, experience and the successful completion of a comprehensive examination.

As the Editor of AUS Utility Reports (formerly C. A. Turner Utility Reports), I am responsible for the data collection, distribution, marketing and billing of the AUS Monthly Utility Report, which provides comprehensive information on key ratios and industry rankings based upon financial statistics presented in the report for the electric, gas and water industries. I also assist in the calculation and production of the AGA Index, a market capitalization weighted index of the common stocks of the approximately 70 corporate members of the AGA.

I assisted Pauline M. Ahern, Frank J. Hanley and Richard A. Michelfelder in the preparation of a working paper entitled, "New Approach to Estimating the Cost of Common Equity Capital for Public Utilities", which has been published in the December 2011 issue of The Journal of Regulatory Economics.

I have filed testimony on capital structure on behalf of the following client:

Penn Estates Utilities, Inc.

I have assisted in the preparation of rate of return studies on behalf of the following clients:

The Regulatory Commission of Alaska  
Alpena Power Company  
Anadarko Petroleum Corporation  
Apple Canyon Utility Company  
Applied Wastewater  
Aqua New Jersey, Inc.  
Aqua North Carolina, Inc.  
Aqua Ohio, Inc.  
Aquarion Water Company of Connecticut  
Aquarion Water Company of Massachusetts  
Artesian Water Company  
The Atlantic City Sewerage Company

Carolina Water Service of North Carolina  
Carolina Water Service of South Carolina  
The Columbia Water Company  
The Connecticut Water Company  
Corix Multi-Utility Services Inc.  
Delmarva Power and Light Company  
Equitable Gas Company  
Illinois American Water Company  
Interstate Power & Light Company  
Iowa American Water Company  
Jersey Central Power & Light Company  
Lake Wildwood Utility Corporation

## Rate of Return Study Clients Continued

Long Island American Water Company  
Massanutten Public Service Company  
Middlesex Water Company  
Missouri Gas Energy  
Missouri-American Water Company  
Mountaineer Gas Company  
New England Gas Company  
New Jersey-American Water Company  
The Newtown Artesian Water Company  
NRG Energy Center Harrisburg LLC  
Ohio-American Water Company  
Penn Estates Utilities  
Peoples Water Service Company of Bastrop  
Penn Estates Utilities Inc.  
Philadelphia Gas Works  
Pinelands Water Company  
Pinelands Wastewater Company  
San Gabriel Water Company  
San Jose Water Company  
Southwest Gas Corporation  
Spring Creek Utilities, Inc.  
Tega Cay Water Services, Inc.  
Tesoro Alaska Company  
Tidewater Utilities, Inc.  
Trigen – Philadelphia Energy Corporation  
United Utility Companies  
United Water Arkansas, Inc.

United Water Arlington Hills Sewerage, Inc.  
United Water Connecticut, Inc.  
United Water Delaware, Inc.  
United Water Great Gorge, Inc.  
United Water Idaho, Inc.  
United Water New Jersey, Inc.  
United Water New Rochelle, Inc.  
United Water New York, Inc.  
United Water Owego Nichols, Inc.  
United Water Pennsylvania, Inc.  
United Water Rhode Island, Inc.  
United Water Toms River, Inc.  
United Water Vernon Sewerage, Inc.  
United Water West Milford, Inc.  
United Water Westchester, Inc.  
Utilities Inc. of Central Nevada  
Utilities, Inc. of Florida  
Utilities, Inc. of Louisiana  
Utilities, Inc. of Nevada  
Utilities, Inc. of Pennsylvania  
Utilities, Inc. - Westgate  
Utility Center, Inc.  
Washington Gas Light Company  
Water Service Company of Indiana  
Water Services Corp. of Kentucky  
Wisconsin Power and Light Company

## EDUCATION:

2003 – University of Pennsylvania – B.A. –Economic History

2008 – Rutgers University – M.B.A. – Cum Laude (Concentration: Finance and International Business,  
Including an independent study on public utility ratemaking)

## PROFESSIONAL AFFILIATIONS:

Society of Utility and Regulatory Financial Analysts  
National Association of Water Companies

## SPEAKING ENGAGEMENTS:

"Application of a New Risk Premium Model for Estimating the Cost of Common Equity", Co-Presenter with Pauline M. Ahern, CRRA, AUS Consultants, Edison Electric Institute Cost of Capital Working Group, October 3, 2012, Webinar.

"Application of a New Risk Premium Model for Estimating the Cost of Common Equity", Co-Presenter with Pauline M. Ahern, CRRA, AUS Consultants, Staff Subcommittee on Accounting and Finance of the National Association of Regulatory Commissioners, September 10, 2012, St. Paul, MN.

Chair – "Cost of Capital" - Advanced Workshop in Regulation and Competition, 31<sup>st</sup> Annual Eastern Conference of the Center for Research in Regulated Industries (CRRRI), May 18, 2012, Rutgers University, Shawnee on Delaware, PA.

## PAPERS:

"A New Approach for Estimating the Equity Risk Premium for Public Utilities", co-authored with Frank J. Hanley and Richard A. Michelfelder, Ph.D., Rutgers University, The Journal of Regulatory Economics (December 2011), 40:261-278. (Research Assistant)

Tega Cay Water Services, Inc.  
Cause No. \_\_\_\_\_

BEFORE THE  
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

EXHIBIT  
TO ACCOMPANY THE  
PREPARED DIRECT TESTIMONY  
OF  
DYLAN W. D'ASCENDIS, CRRA  
ASSOCIATE  
AUS CONSULTANTS

ON BEHALF OF  
TEGA CAY WATER SERVICES, INC.

NOVEMBER 2012

**UTILITIES, INC. AND SUBSIDIARIES**  
**Capital Structure at December 31, 2011**

	Balance at December 31, 2011	Ratios at December 31, 2011	Cost Rates
<b><u>COMMON SHAREHOLDERS' EQUITY:</u></b>			
Common shares, \$.10 par value; authorized and issued 1,000 shares, respectively 0 shares reserved for stock options, respectively	\$ 100		
Paid-in capital	99,111,656		
Retained earnings	79,090,147		
Total Common Shareholder's Equity	<u>\$ 178,201,903</u>	49.75%	10.80% - 11.30% (1)
<b><u>LONG-TERM DEBT:</u></b>			
Collateral trust notes - 6.58%, \$9,000,000 due in annual installments beginning in 2017 through 2035	\$ 180,000,000		
Amortization of Debt and Acquisition Expense			
Total Long-Term Debt	<u>\$ 180,000,000</u>	50.25%	6.60% (2)
<b>TOTAL CAPITALIZATION</b>	<u>\$ 358,201,903</u>	<u>100.00%</u>	

Notes:

- (1) From page 2 of Schedule 1 of Exhibit PMA-1.  
(2) Company-provided.

Capital Structure Based upon Total Permanent Capital for the  
Proxy Group of Nine Water Companies  
2007 - 2011, Inclusive

	2011	2010	2009	2008	2007	5 YEAR AVERAGE
<u>American States Water Co.</u>						
Long-Term Debt	45.46 %	44.30 %	46.95 %	46.25 %	46.99 %	45.99 %
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	54.54	55.70	53.05	53.75	53.01	54.01
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>American Water Works Co., Inc.</u>						
Long-Term Debt	55.72 %	56.73 %	56.98 %	53.75 %	51.05 %	54.84 %
Preferred Stock	0.27	0.29	0.30	0.32	0.31	0.30
Common Equity	44.01	42.98	42.72	45.93	48.64	44.86
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>Aqua America, Inc.</u>						
Long-Term Debt	54.11 %	57.05 %	56.59 %	54.21 %	55.68 %	55.57 %
Preferred Stock	0.02	0.02	0.02	0.09	0.09	0.05
Common Equity	45.87	42.93	43.39	45.70	44.03	44.38
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>Artesian Resources Corp.</u>						
Long-Term Debt	48.93 %	52.84 %	54.12 %	59.57 %	52.20 %	53.53 %
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	51.07	47.16	45.88	40.43	47.80	46.47
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>California Water Service Group</u>						
Long-Term Debt	52.04 %	52.51 %	47.93 %	41.88 %	42.86 %	47.44 %
Preferred Stock	0.00	0.00	0.00	0.00	0.51	0.10
Common Equity	47.96	47.49	52.07	58.12	56.63	52.46
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>Connecticut Water Service, Inc.</u>						
Long-Term Debt	53.05 %	49.32 %	50.59 %	46.94 %	47.76 %	49.53 %
Preferred Stock	0.30	0.34	0.35	0.39	0.44	0.36
Common Equity	46.65	50.34	49.06	52.67	51.80	50.11
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>Middlesex Water Company</u>						
Long-Term Debt	43.12 %	43.91 %	47.35 %	49.10 %	49.48 %	46.59 %
Preferred Stock	1.06	1.07	1.24	1.22	1.46	1.21
Common Equity	55.82	55.02	51.41	49.68	49.06	52.20
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>SJW Corporation</u>						
Long-Term Debt	56.63 %	53.79 %	49.52 %	46.08 %	47.79 %	50.76 %
Preferred Stock	0.00	0.00	0.00	0.00	0.01	0.00
Common Equity	43.37	46.21	50.48	53.92	52.20	49.24
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>York Water Company</u>						
Long-Term Debt	47.16 %	48.28 %	47.16 %	55.31 %	51.17 %	49.82 %
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	52.84	51.72	52.84	44.69	48.83	50.18
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<u>Proxy Group of Nine Water Companies</u>						
Long-Term Debt	50.69 %	50.97 %	50.60 %	50.35 %	49.46 %	50.46 %
Preferred Stock	0.18	0.19	0.21	0.22	0.31	0.22
Common Equity	49.13	48.84	48.99	49.43	50.23	49.32
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

Source of Information  
EDGAR Online's I-Metrix Database  
Annual Forms 10-K